

2020 FYI

POPULAR ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED JUNE 30, 2020

Missouri Department of Transportation and Highway Patrol Employees' Retirement System
A Component Unit of the State of Missouri



Scott Simon
Executive Director

This *For Your Information (FYI)* brochure has been prepared to provide a reader friendly summary of MPERS' information that members and other stakeholders may find valuable. For additional and more detailed information, refer to our *Comprehensive Annual Financial Report (CAFR)*, available on our website at www.mpers.org.

Membership in MPERS is comprised of eligible employees of the Missouri Department of Transportation (MoDOT), the Missouri State Highway Patrol (MSHP or Patrol), and MPERS. The System administers retirement, survivor, and disability benefits in accordance with Chapter 104 of the Missouri Revised Statutes. MPERS operates as a 401(a) tax qualified defined benefit plan. Benefits are based upon a formula that is set by law.

The theme of the 2020 CAFR, as well as the *For Your Information (FYI)* brochure, is "MPERS CARES." During the past year, and perhaps more than ever, it has been MPERS' goal to let our members and stakeholders know that we care. By focusing on Cooperation, Accountability, Reliability, Excellence, and Service, MPERS' staff is committed to maintaining a superior level of service to its primary "customers"—members, retirees, survivors, and other beneficiaries. MPERS' customers have come to expect prompt, tailored, courteous, personalized, and professional service; timely payments made in compliance with the law; accurate and transparent communications; and timely, relevant information and education. That same resolve on the part of MPERS' staff was not diminished when presented with the unprecedented circumstances of the COVID-19 pandemic. There is no better test for an organization's business continuity plans than a real event. We are pleased and proud to report that we were able to provide uninterrupted service to our members and stakeholders over the past year.

The Board of Trustees (Board) periodically completes an asset/liability study. The purpose of this study is to identify investment portfolios that are most likely to meet the System's expected future spending needs while minimizing the risk that those needs will not be met. Something that has not been apparent in past studies that became evident this time was the material funding progress of the System. The Board's aggressive funding policies have worked and are now providing a glimpse of the funding relief that has not been conceivable in the past. The recent market environment has challenged that reality, but MPERS is well positioned to weather this recent storm and continue the critical path of progress to support the benefits covered members have worked so hard to earn. Maintaining these important policies is essential to the long-term success of the plan.

Lastly, during the last fiscal year, an actuarial audit was completed on the work of the retained actuary, GRS Consulting. The conclusions of Cheiron, the actuarial auditor, were that the results of the retained actuary were reasonable, reliable, and the costs consistent with the work performed. Furthermore, Cheiron complimented the Board for maintaining the aggressive funding policies that have now been in place for over 15 years.

We express our gratitude to the members of the Board, the staff, the consultants, and the many people who worked so diligently to assure the continued successful operation of MPERS. For over 65 years, MPERS has been committed to providing a foundation for financial security to plan participants through the delivery of quality benefits, exceptional member service and professional plan administration.

Sincerely,

Scott Simon
Executive Director

Cooperation

Accountability

Reliability

Excellence

Service

About MPERS

MPERS CARES

At MPERS, our mission is simple: To provide a foundation for financial security to plan participants by delivering quality benefits and exceptional member service through professional plan administration and prudent management of assets, at a reasonable cost to the taxpayers of Missouri.

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Cooperation

Our members are our number one focus; we work for them.

The System operates under the direction and control of an 11-member Board of Trustees. The Board of Trustees has the ultimate fiduciary responsibility for the System and those covered by the System. Fiduciary duty is a legal relationship of trust between parties, where one party is acting for the benefit of another. Fiduciaries of pension funds have strict standards imposed upon them by law. The Board's primary fiduciary responsibilities are the duty of loyalty, the duty of prudence, and the duty to follow plan documents.

In addition to administrative rules, the Board adopted governance policies that set forth the expectations the Board has for itself and formalize the way the Board conducts business. The policies are intended to help the Board meet its fiduciary responsibilities. The governance policies set forth the structure, manner, and process by which the Board exercises its authority and control. As of June 30, 2020, the Board consisted of the following members:



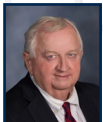
William "Bill" Seibert
Board Chair
MSHP Retiree Representative



Todd Tyler
Board Vice Chair
MoDOT Employee Representative



Senator Mike Bernskoetter
State Senator



John Briscoe
*Highways & Transportation
Commissioner*



Sergeant Matt Broniec
*MSHP Employee
Representative*



Sue Cox
MoDOT Retiree Representative



Patrick McKenna
*Director of MoDOT
Ex Officio Member*



Colonel Eric Olson
*Superintendent of MSHP
Ex Officio Member*



Robert Brinkmann
*Highways & Transportation
Commissioner*



Gregg Smith
*Highways & Transportation
Commissioner*



Representative Sara Walsh
State Representative

Financial

Financial statements report information using accounting methods similar to those used by private sector companies. The net position reported below is an indicator of the System's financial standing at the end of the fiscal year. For more financial information, refer to the Comprehensive Annual Financial Report at www.mpers.org.

Assets and Liabilities

The *Summarized Comparative Statements of Fiduciary Net Position* includes all of the System's assets and liabilities, with the difference between the two reported as net position.

	As of June 30, 2020	As of June 30, 2019	% Change 2020 / 2019
Assets			
Cash and Receivables	\$ 19,630,328	\$ 19,474,188	0.8
Investments	2,352,666,839	2,419,349,739	-2.8
Invested Securities Lending Collateral	108,567,739	104,247,159	4.1
Capital Assets	321,676	569,044	-43.5
Total Assets	2,481,186,582	2,543,640,130	-2.5
Deferred Outflows of Resources	31,054	32,014	-3.0
Liabilities			
Accounts Payable	2,868,289	7,708,336	-62.8
OPEB Obligation	1,552,393	1,538,442	0.9
Securities Lending Collateral	114,948,267	110,924,432	3.6
Total Liabilities	119,368,949	120,171,210	-0.7
Deferred Inflows of Resources	248,799	239,104	4.1
Net Position	\$2,361,599,888	\$2,423,261,830	-2.5

Accountability

We conduct business at a reasonable cost to the taxpayers of Missouri.

Income and Expenses

The *Summarized Comparative Statements of Changes in Fiduciary Net Position* accounts for all the current year's additions (income) and deductions (expenses), regardless of when cash is received or paid.

	Year Ended June 30, 2020	Year Ended June 30, 2019	% Change 2020 / 2019
Additions			
Contributions	\$ 220,902,777	\$ 218,595,641	1.1
Net Investment (Loss) Income	(10,673,270)	154,326,511	-106.9
Other Income	5,412	307	1,662.9
Total Additions	210,234,919	372,922,459	-43.6
Deductions			
Benefits	267,605,833	259,817,811	3.0
Administrative Expenses	4,291,028	4,372,966	-1.9
Total Deductions	271,896,861	264,190,777	2.9
Net (Decrease) Increase	(61,661,942)	108,731,682	-156.7
Net Position-Beginning	2,423,261,830	2,314,530,148	4.7
Net Position-Ending	\$2,361,599,888	\$2,423,261,830	-2.5

RELIABILITY

Investments

Investment Policy

The primary objective of MPERS is to provide active and retired employees with adequate retirement benefits. The investment portfolio is constructed to generate a total return that, when added to employer contributions, is sufficient to meet the benefit obligations. Following prudent standards for preservation of capital, the goal is to achieve the highest possible rate of return consistent with the plan's tolerance for risk as determined by the Board in its role as fiduciary.

Investment Performance

MPERS' investment portfolio generated a -0.46% return for the year, net of all management fees and based on time-weighted rates of return and market valuations. As of June 30, 2020, MPERS' investment portfolio had a total fair value of \$2.36 billion, representing a decrease of \$61.7 million from June 30, 2019.

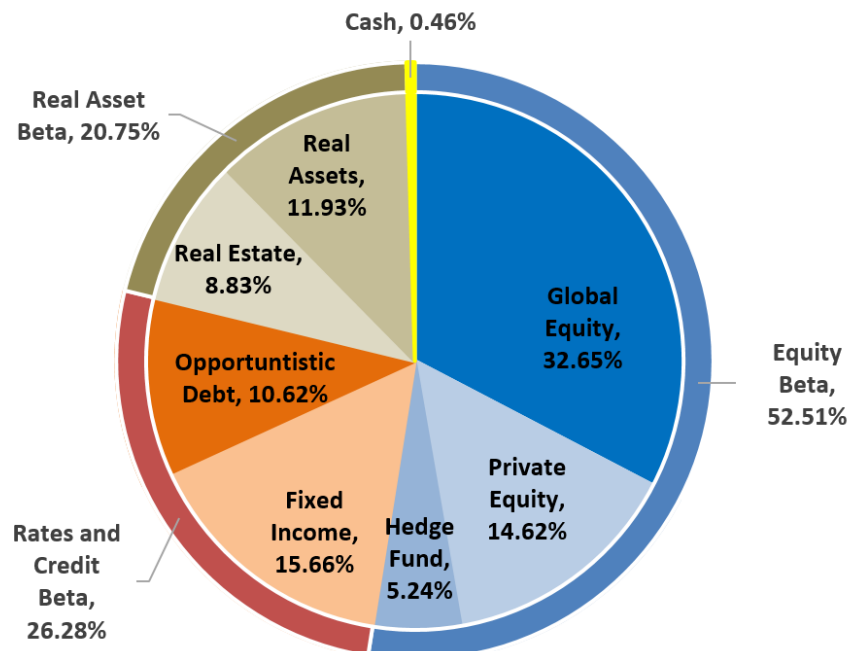
	FY 2020	FY 2019	FY 2018	FY 2017
Asset Value	\$2.3 billion	\$2.4 billion	\$2.3 billion	\$2.2 billion
1-Year Return	-0.46%	6.84%	9.42%	11.22%
Policy Benchmark	4.03%	8.80%	7.69%	10.90%
3-Year Return	5.18%	9.15%	7.12%	6.20%
Policy Benchmark	6.81%	9.13%	6.75%	5.92%
5-Year Return	5.51%	6.97%	9.04%	9.82%
Policy Benchmark	6.60%	6.85%	7.94%	8.40%
10-Year Return	8.80%	10.19%	6.40%	5.19%
Policy Benchmark	8.18%	9.22%	6.20%	5.26%

Reliability

We strive to preserve, protect, and grow our assets.

Asset Allocation

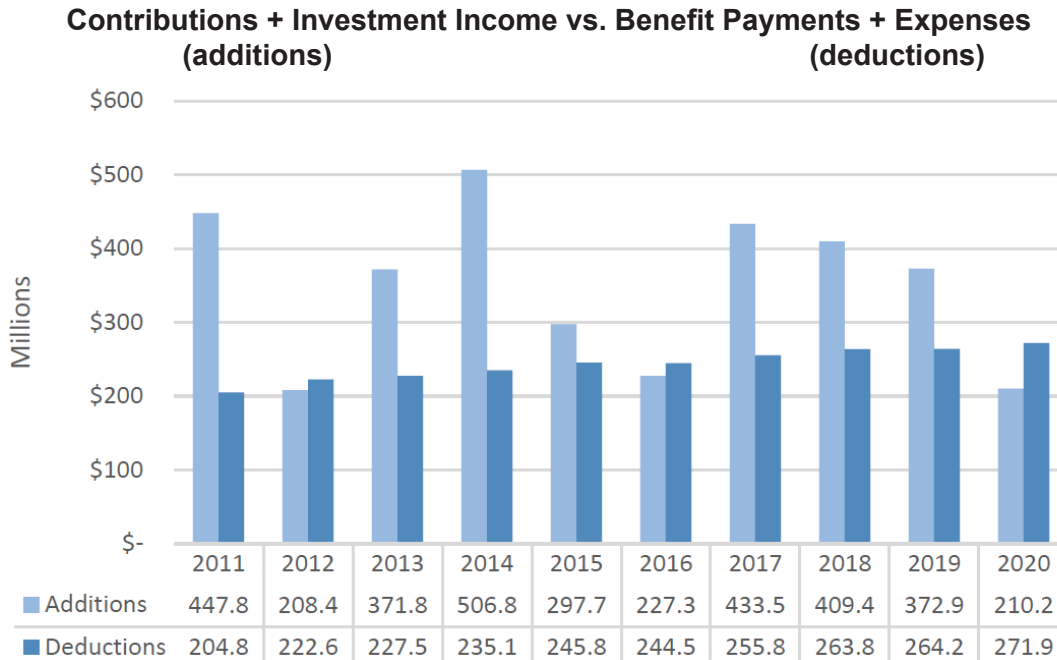
MPERS' investment consultant completes an asset/liability study every five years to determine whether or not changes are needed to the asset allocation. The asset allocation is reviewed annually by the Board.



EXCELLENCE Funding

How is a Pension Plan Funded?

MPERS' funding objective is to meet current and future benefit obligations of retirees and beneficiaries through contributions and investment earnings. Each year, an actuary calculates the liability associated with the benefits, determines the funded status, and recommends the contribution rate needed to fund the system in accordance with the funding policies put in place by the Board. The contribution rate is based on a number of factors, including the current level of benefits, the number of participants, current and future pay levels, members' age and average life expectancy, expected earnings on investments and the plan's unfunded liability. The investment portfolio is constructed to generate income that, when added to employer contributions, is sufficient to meet benefit obligations and expenses.



Excellence

We make decisions in the best interest of our members based upon statutory guidance.

Permanent and Temporary Funding Policies

In an effort to address the System's underfunded status, the Board has adopted policies intended to improve MPERS' funded status over time. The unfunded actuarial accrued liabilities are amortized as follows:

Permanent Policy: In September 2006, the Board adopted a policy where the total contribution is based on normal cost plus a 29-year amortization of unfunded liabilities. The amortization period started July 1, 2007.

Temporary Accelerated Policy: In September 2009, after the market downturn, the Board adopted a policy where the total contribution is based on normal cost plus a 15-year amortization period for unfunded retiree liabilities and a 30-year amortization period for other unfunded liabilities. Both amortization periods started July 1, 2010.

The temporary accelerated policy will remain in effect until the retiree liability becomes 100% funded or the permanent policy produces a higher contribution rate.

Permanent and Temporary Funding Policies Remaining as of July 1, 2020

Permanent Policy	15 years
Temporary Policy (retirees)	4 years
Temporary Policy (other)	19 years

EXCELLENCE

Funding

Contribution Rates

When the plan was created in 1955, both employees and employers paid contributions equal to 4 percent of the employee's first \$7,500 of salary. In 1976, legislation was passed which made the System non-contributory and all contributions, plus interest, were refunded to members. From then until 2011, the cost of the plan was funded solely by employer contributions and investment income. In 2010, legislation was passed that created the contributory 2011 Tier. Employees hired for the first time in a benefit-eligible position on or after January 1, 2011, contribute 4 percent of their salary to help fund their retirement benefits.

The Board establishes the contribution rate, as a percentage of payroll, based on actuarial recommendations.

FY 2020 Employer Contribution Rates

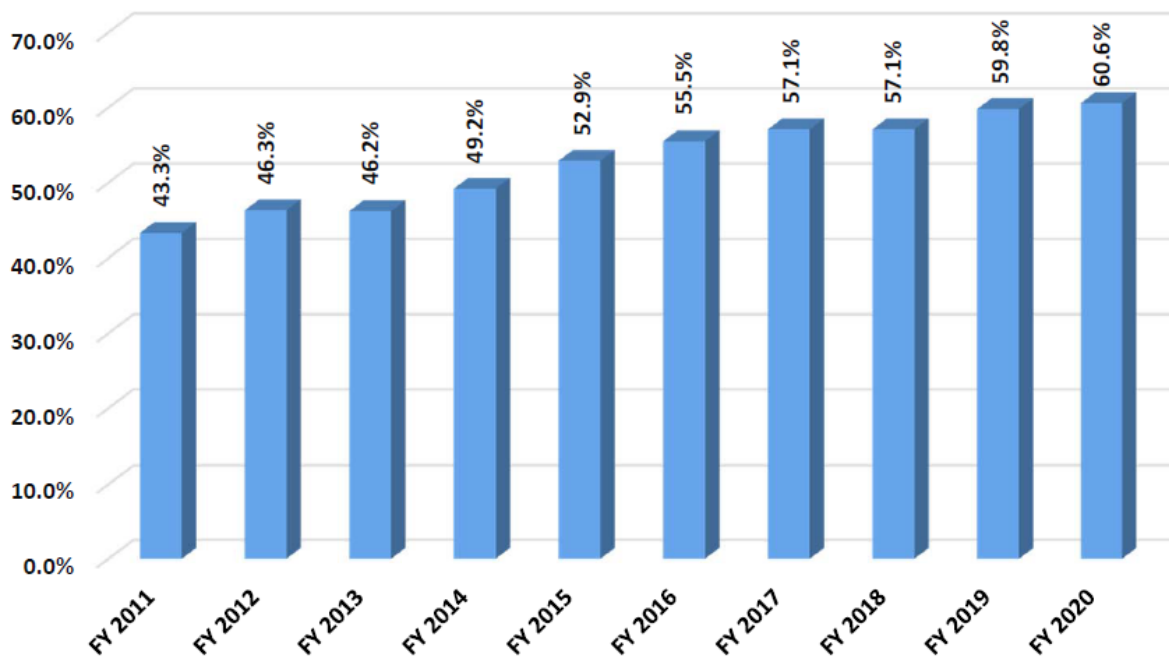
	MoDOT & Civilian Patrol	Uniformed Patrol
Normal Cost of Benefit	8.11%	15.32%
Catch Up Payment on the Unfunded Liabilities*	48.24%	41.03%
Administrative Expenses	1.12%	1.12%
Subtotal	57.47%	57.47%
Disability Insurance Premium	0.53%	0.53%
Total Employer Contribution Rate	58.00%	58.00%

* The "Catch Up Payment on the Unfunded Liabilities" is just that—extra contributions, over a set period of time, to improve our funded status.

Funded Status Calculation

$$\begin{array}{rcl}
 \$2,481,329,531 & \div & \$4,092,097,897 \\
 \text{Current Value of Assets} & & \text{Needed to Fund Future Benefits} \\
 & & = 60.6\% \text{ Funded}
 \end{array}$$

History of Funded Status



Membership and Benefits

Retirement Plans

To participate in MPERS, an employee must be working in a benefit-eligible position for the Missouri Department of Transportation (MoDOT), the Missouri State Highway Patrol (MSHP), or the MoDOT & Patrol Employees' Retirement System (MPERS). A benefit-eligible position requires the performance of duties during at least 1,040 hours per year (half-time or greater). Based on hire date, members participate in one of three plans.

Closed Plan (non-contributory)

The Closed Plan was the original retirement plan for benefit-eligible employees hired prior to July 1, 2000. At retirement, these members may elect to stay in the Closed Plan or retire under the Year 2000 Plan.

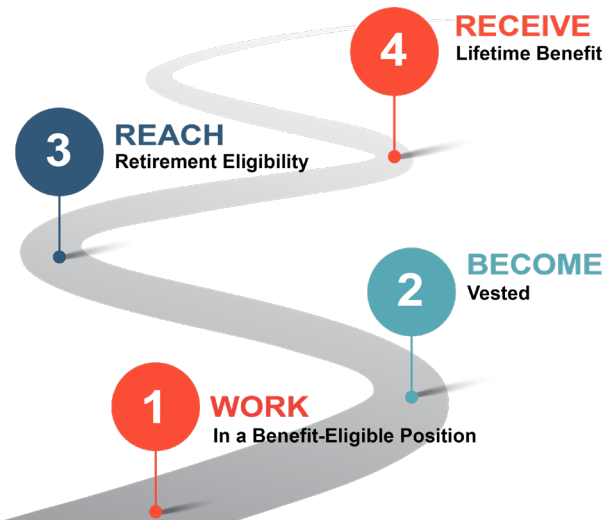
Year 2000 Plan (non-contributory)

Benefit-eligible employees hired for the first time on or after July 1, 2000, but prior to January 1, 2011, are members of the Year 2000 Plan.

2011 Tier (contributory)

A contributory tier was added to the Year 2000 Plan for benefit-eligible employees hired for the first time on or after January 1, 2011. Both employee and the employer make monthly contributions to fund the retirement of 2011 Tier members.

Steps of a Defined Benefit Retirement Plan



Service

Our goal is to provide exceptional service always; no matter who is on the phone or sitting across from us.

Benefits are calculated by a formula set by law:

$$\begin{array}{l}
 \text{Final Average Pay (FAP)} \\
 \text{The average of a member's} \\
 \text{highest 36 consecutive months} \\
 \text{of pay}
 \end{array}
 \times
 \begin{array}{l}
 \text{Credited Service} \\
 \text{The member's years and} \\
 \text{full months of service}
 \end{array}
 \times
 \begin{array}{l}
 \text{Multiplier} \\
 \text{A percentage set by law}
 \end{array}
 =
 \begin{array}{l}
 \text{Monthly Base Benefit} \\
 \text{Paid for the lifetime of the} \\
 \text{member}
 \end{array}$$



New Retiree Averages

Years of Service 22.9
Final Average Pay \$4,199

Total 2020 Benefits Paid
\$267,605,833



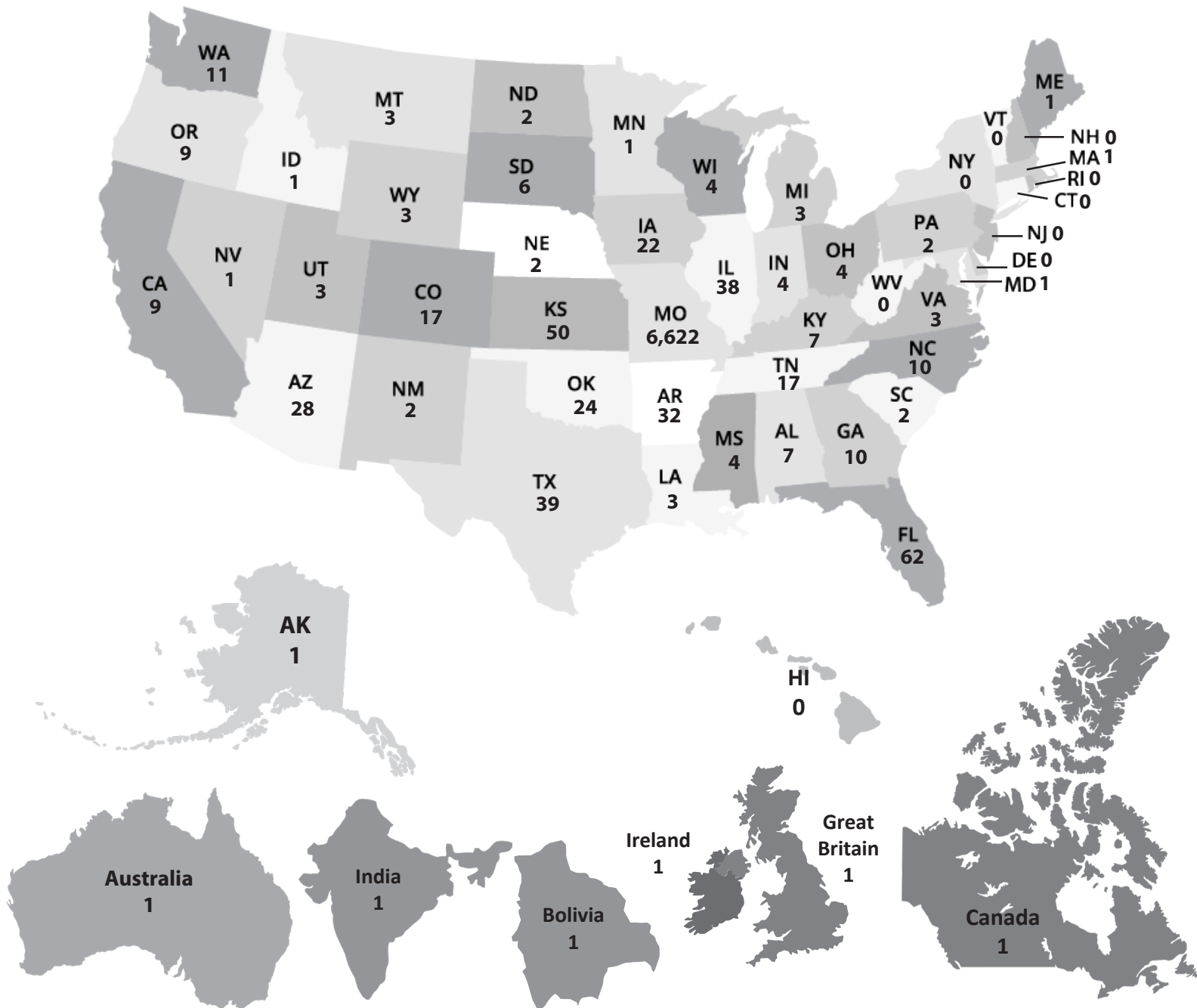
Number of New 2020 Retirees

MoDOT 249
Uniformed Patrol 44
Civilian Patrol 43
MPERS 1

	Non-Uniformed		Uniformed Patrol	Grand Total
	Civilian Patrol	MoDOT and MPERS		
Active Members				
Closed Plan	232	1,271	451	1,954
Year 2000 Plan	376	1,501	364	2,241
Year 2000 Plan - 2011 Tier	478	2,276	386	3,140
Total Active Members	1,086	5,048	1,201	7,355
Retirees and Beneficiaries				
Closed Plan	496	3,344	1,008	4,848
Year 2000 Plan	608	3,612	8	4,228
Year 2000 Plan - 2011 Tier	5	6	0	11
Total Regular Pensioners	1,109	6,962	1,016	9,087
Disability Pensioners	13	117	9	139
Terminated Vested Members	258	1,665	176	2,099
Total	2,466	13,792	2,402	18,680

Retiree Location

While the majority of MPERS' retirees reside in the state of Missouri, we have retirees that live in 41 states and 6 countries.



MoDOT & Patrol Employees' Retirement System

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